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REVIEWS

The Value of Money. By B. M. ANDERSON, JR. New York, The Macmillan Company, 1917.—xxviii, 610 pp.

The central theme of this book is the value of money—one variety of economic value. Inasmuch, however, as the author holds that law, moral values and economic values all belong to the “same general class, *species* of the *genus*, social value . . .”, he is led to consider “virtually the whole range of economic theory” (pages vii and 26). The book is divided into four parts: Part i deals with the value of money in its relation to the general theory of value; part ii is devoted to a critical examination of the quantity theory; part iii to the author’s own theory of the value of money; and part iv to “the reconciliation of statics and dynamics.”

The philosophy of part i may be briefly summarized as follows: Value is a quality, it is also an absolute quantity and not, as many economists claim, purely relative (pages 5–7). “Values may simultaneously rise and fall” (page 8).

There are individual values, marginal utilities, of goods which may differ in magnitude and in quality from man to man, but there is, over and above these, influenced by them in part, influencing them much more than they influence it, a social value for each commodity, a product of a complex social psychology, which includes the individual values, but includes very much more as well [page 26].

For a fuller treatment of his concept of social value, the author refers us to his earlier book *Social Value*.

Starting with this social value concept, the author examines critically one by one various theories relating to the value of money. He concludes that there is “no sense in which the terms, demand and supply of money, can have relevance to the problem of the value of money” (page 62). Cost-of-production theories do not explain the value of money (chapter 3) nor does the capitalization theory of value in its present formulation. The marginal utility theory is not valid for money nor for any other class of goods (page 83).

In part ii (covering 263 pages) the author undertakes to pound the quantity theory of money to powder and blow the powder away out of the palm of his hand. To use his own words, he challenges “virtually

every contention and every assumption of the quantity theory" (page xvi). He declares that the equation of exchange as a statement of a mechanical relationship is a perfectly harmless and useless proposition, a mere truism (page 157); as a statement of a functioning law it is absolutely fallacious.

While the author refers to many interpretations of the quantity theory, his criticisms are directed primarily to that given by Professor Irving Fisher in his book on the *Purchasing Power of Money*. Next to Fisher's interpretation that of the reviewer contained in his book on *Money and Prices* is the object of the author's criticisms.

Among the numerous criticisms urged against the quantity theory the following are emphasized by the author. It is a mechanical theory, he holds, which assumes blind habit and fluid prices, a theory which may properly be dubbed a "dodo-bones theory", since it falsely assumes that objects otherwise valueless, like dodo-bones, may circulate as money, being given a value by scarcity and monetary demand. Banks do not tend to keep fixed ratios of reserves to deposits, as quantity theorists assume, therefore M in Fisher's equation does not control M (chapter 9). The V and V' of Fisher's equation do not vary independently of the other factors in the equation, but are influenced by M , M' , T and P , and by forces that affect all of these factors (chapters 12 and 13). The quantity theory assumes that the price level is always passive and that the direction of causation is toward P from the other factors in the equation of exchange. Anderson challenges this claim of Fisher's and maintains that "particular prices can, and do, rise, without a *prior* increase in money or bank deposits, or change in the volume of trade, or in velocity of money or deposits and also without compensating fall in other particular prices" (page 293). The quantity theory cannot explain the elasticity of bank credit (pages 283-284) nor international gold movements (chapter 16) and is in obvious conflict with Gresham's law. The bimetallists in their chief contention were out of harmony with the quantity theory (page 219, note). The statistical tests of the quantity theory made by the reviewer and Fisher "are, with the exception of the figures for money and deposits, widely at variance from the real facts in the case, and . . . if they were correct . . . could in no sense be said to constitute proof of the quantity theory" (pages 335-336). A functional theory of money must be a dynamic theory; the quantity theory, being a theory of "long run tendencies", "normal equilibria" and "static adjustments", "touches the real problem of the value of money not at all" (page 393).

Part iii on "The Value of Money" discusses the origin of money, the value of gold, the functions of money, the nature of credit, the character of American bank assets and the functions of bank reserves. Along with much valuable material which will prove widely acceptable among economists, it contains some doctrines that will appear startling to most of them—doctrines which, in the judgment of the reviewer, few economists will accept. Most readers will be surprised at the relative importance which the author attributes to speculation in the country's total business and particularly at the importance he attributes to it in New York City. "The great bulk of trade in the United States", we are told, "is SPECULATION, rather than that sort of trade which is determined by 'physical capacity and technique'" (page 241). The importance of the speculative business of New York City has been grossly underestimated, the author claims, by the reviewer and Fisher, who "have systematically buried New York City, and systematically covered up speculation," (page 383). He devotes 52 pages to "the rediscovery of a buried city". Speculation "makes up the overwhelming bulk of trade in the country" (page 255) and bulks particularly large in New York City, where "wholesale" and "retail" deposits are a small factor (page 392). "We cannot assign to New York City less than a major part of the total check deposits of the whole country" (page 351).

In the light of the experiences of 1917 and of the studies of Hollander, Mitchell and the reviewer, economists will hesitate to accept the declaration that "stock market collateral loans . . . constitute the most perfectly satisfactory sort of bank loan, from the standpoint of liquidity" (page 514); and that Wall Street "by using a large amount of bank-credit . . . increases the amount available for ordinary business" (page 517). Few will be convinced by the argument that the provision of the Federal Reserve Act which forbids federal reserve banks to discount stock exchange paper was a mistake, one important reason cited by the author being that it "prevents, in large degree, the federal banks from being effective weapons against the money trust," (page 518). Not many economists will accept a concept of statics so narrow as to justify the author's conclusion that "*the static law of bank reserves is that none are needed*" (page 543).

Part iv is devoted to the reconstruction of statics and dynamics. After one has noted the broad interpretation given by the author to the term dynamics and the narrow one given to statics, he wonders what is left of statics to be reconciled. The lion lies down with the lamb, but the lamb is inside.

It is difficult to evaluate a book of this kind within the limits of this review, because it contains so much to be commended and so much to be condemned. Every chapter and nearly every page contains challenges to those, like the reviewer, who believe in the essential soundness of the quantity theory of money, when that theory is rationally interpreted. The book is refreshingly original, keen in its analyses, broad in its familiarity with economic literature and meticulous in its criticisms. It is a book on value but is lacking in a sense of values. As an exercise in dialectic, it would have been a masterpiece in the days of scholasticism. It is better on its negative than on its positive side. It is boldly iconoclastic. It fearlessly attempts to break to pieces the old economic idols and offers in their place the author's economic pantheism of social value.

"Social value", we are told by the author, "assumes a 'social organism' which can give value to goods." There is "a mind of society, a physical organism", a "one greater mind", a "social mind" with an "organic character." "Social value" is "something superindividual" from which economic activity, if motivated at all, receives its guidance (*Social Value*, pp. 84, 85, 87, 199).

If, after reading statements like these in the author's *Social Value*, to which he refers the reader for a full treatment of the subject, we turn back to *The Value of Money* and read his answer to his critics, we find ourselves at a loss to comprehend just what this social value is, to which we must turn for an explanation of the value of money. Here the author tells us that "all mental processes are in the minds of individual men. There is no social 'oversoul' which transcends individual minds, and there is no social 'consciousness' which stands outside of and above the consciousness of individuals." John Dewey, we are told, was right when he said "the human mind is what happens to the human animal in a social situation" (pages 16-17). We are inclined to accept these latter statements as sound, but when we have subtracted the disclaimer from the "claimer", we find little left of social value except the commonplace that the individual and his economic values are socialized products. We begin to doubt the omnipotence of this new god which has been set up in place of our old idols. We are not certain whether the individual minds make the social mind or the social mind makes the individual mind. In fact, we have an uncomfortable feeling that in this reasoning there may lurk an instance of that "vicious circle" which the author is so much given to discovering in the reasoning of others.

The quantity theory may be viewed either as an equation of exchange showing the mathematical relationships of the various factors or as a

functional theory. With the author's claim that the equation of exchange as a statement of a mechanical relationship is a mere useless truism few people will agree. The equation is self-evident only in the sense that the fundamental theorems of geometry are self-evident. It is useful because it analyzes and brings together in a convenient and easily remembered form the general factors determining the price level.

Some of Anderson's criticisms of Fisher's concept of the quantity theory are cared for in the reviewer's concept under the term business confidence. (See *Money and Prices*, pages 82-88, 121-126).

The reviewer is not prepared to say that there may not be rare cases, as, for example, cases of deliberate changes in a monopoly price, in which individual price changes may initiate forces that will permanently affect the price level. He knows of no actual instance of this kind, however, and finds Anderson's hypothetical illustration, involving as it does a reduction in the rate of monetary turnover, (pages 309-310) far from convincing. In the main, the movements of price levels are the results of movements in the other factors in the equation and not their causes—certainly this is true of the great price movements of recent times, whether they be of gold prices or of depreciated paper money prices. It has been as an explanation of these long-time price movements that the quantity theory has had its chief discussion. And the price movements with which most students of money are chiefly concerned are movements of commodity prices and labor, not the prices of highly speculative securities in a market like Wall Street.

Anderson's contention that V , V' , M and T in the equation of exchange are not independent variables and that this fact vitiates the quantity theory, will not disturb believers in that theory. They will accept *with qualification* the statement that these factors are not always independent variables, but will deny that this is a disproof of the quantity theory. Practically all quantity theorists admit the interdependence of these factors *during transition periods*. An increase in M , for example, frequently stimulates V , through increasing P , and may also cause an increase in V' . Changes of this kind are part of the mechanism by which a disturbance in one of the factors exerts its influence in the direction of restoring and maintaining equilibrium. This equilibrium is a world equilibrium, for political boundaries have little significance for an economic law, and changes made within a political area may have their compensations in other changes without that area. The real question is whether the factors, V , M , V' and T are dependent variables as a permanent, long-time proposition, in contrast with a temporary and transitional one. Is there any reason, for ex-

ample, why a permanent doubling of M in itself should lead to a permanent change in V or V' ? If there is a fundamental interdependence of these factors in the equation other than that existing during the transitional periods, Anderson has failed to prove it. To the contention that all periods are transitional periods because the world of business is a dynamic world, the obvious answer is, "yes, to a degree," but in studying phenomena so complicated and active as those of the modern business world, the student is compelled to assume states of equilibrium and then to allow for the factors abstracted. An economic law tells merely what will happen under certain conditions. We can get nowhere in economic reasoning without assuming conditions that are not fully realized in the work-a-day world. Such assumptions are the scaffolding used in the erecting of the building. There is nothing more fundamental in economics than the law of proportionality which finds expression in a continual tendency toward equilibrium. The assumption of equilibria is a perfectly valid and commonplace procedure in the statement of scientific laws and in the reasoning by which these laws are arrived at.

"The ultimate test of scientific theory", the author says, "must be practice." "The chief claim for the present theory of value [the social value theory] is that it not only unlocks all the doors that earlier theories have unlocked, but also others which have resisted the old keys". The man who would go into the modern stock market armed with the old theories, we are told, "is like the man who would fight Hindenburg with bows and arrows. . . . The social value theory is offered as a better weapon" (pages 41-42). The reviewer agrees with Professor Edgeworth that the social value theory would not fare well from such a test, (*Economic Journal*, March, 1918, p. 67) and believes that the quantity theory is less likely to prove to be a bow-and-arrow theory than is the social value theory to prove to be one of innocuous gas.

The book is the strongest attack on the quantity theory of money that has yet been made, but that theory emerges from the shower of blows with no serious internal injuries and gives promise of surviving as the most vigorous theory of money in the field. Interpreted rationally and broadly, as an expression of long-run tendencies, the quantity theory of money as a functional theory, will continue to be acceptable to most economists. It meets the test of workability.

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